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***Application of
Chem-Nuclear Systems, LLC
A Division of GTS Duratek, Inc.
For
Adjustment in the Level of Allowable
Cost for June 30, 2003 and
Identification of Allowable Cost for June
30, 2004***

Docket No. 2000-366-A

***Direct Testimony of
William P. Blume
Audit Department***

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 Q. Please state for the record your name, business address
2 and position with the Public Service Commission of South
3 Carolina.

4 A. My name is William P. Blume. My business address is 101
5 Executive Center Drive, Columbia, South Carolina. I am
6 employed by the Public Service Commission of South
7 Carolina as the Audit Department Manager.

8 Q. Please state your educational background and your work
9 experience.

10 A. I received a BS Degree in Business Administration with a
11 major in Accounting from the University of South
12 Carolina in 1972. I am licensed as a Certified Public
13 Accountant, certified in the State of South Carolina. I
14 have twenty-eight years of experience in the auditing
15 profession.⁹ Twenty-three of those years were involved in
16 the Utility regulatory rate-making process. I also have
17 testified for the Commission Staff in the prior three
18 (3)hearings involving Chem Nuclear, Docket #2000-366-A.
19 Such hearings were held before this Commission for the
20 purpose of setting the allowable cost for fiscal years
21 ending June 30, 2003, 2002 and 2001 and to propose
22 excess costs to be allowed for reimbursement for the
23 fiscal years ending June 30, 2002 and 2001.

1 Q. What is the purpose of your testimony involving Chem-
2 Nuclear Systems, LLC for this proceeding?

3 A. The purpose of my testimony today is to explain the
4 Staff's report which resulted from Staff's review of the
5 operations of Chem-Nuclear for the fiscal year ended
6 June 30, 2003 as such report relates to costs in excess
7 of those costs allowed in the Commission's previous
8 Order #2003-188; to report on the staff's review of the
9 Company's new Cost Point Accounting System; and to
10 present the Staff's proposed allowed costs for the
11 fiscal year ending June 30, 2004.

12 Q. Are your attached exhibits a result of that review?

13 A. Yes they are.

14 Q. Would you explain the Exhibits that are attached to
15 your testimony?

16 A. I have presented a number of Exhibits related to my
17 review of the Company's filing for recovery of excess
18 cost as of June 30, 2003.

19 Staff Exhibit A is a condensed presentation of Staff's
20 proposed costs which in Staff's opinion should be
21 allowed for reimbursement.

22 Staff Exhibit A-1 details proposed adjustments made by
23 the Staff as a result of its review of the books and

1 records of the Company. I will provide a detailed
2 explanation of each of these proposed adjustments later
3 in my testimony.

4 **Q. Are the Staff Exhibits marked as Exhibits AA different**
5 **than those you have just given an explanation of in your**
6 **prefiled testimony?**

7 A. Yes they are different in the respect that these Staff
8 Exhibits present the Staff's proposed costs to be
9 allowed for the period ending June 30, 2004.

10 **Q. Would you now explain to the Commission the purpose of**
11 **the Exhibits marked as AA Staff Exhibits?**

12 A. Yes. Staff Exhibit AA details the proposed allowed costs
13 for the fiscal year ending June 30, 2004. Such costs are
14 presented as either Fixed, Variable or Irregular Costs.
15 The type of costs was the result of a collaborative
16 agreement that was reached by the Parties to the case.
17 The Collaborative Agreement process was the result of
18 Commission Order #2003-188 in which the Parties were
19 ordered to make a detailed study of how the Operation
20 and Efficiency Plan (OEP) could be used for the purpose
21 of setting future costs for the Company. The Parties
22 met and agreed upon a method of presentation of future

1 costs. The Agreement was filed with the Commission and
2 approved as filed in Commission Order #2003-537.

3 Exhibit AA-1 presents a reconciliation of the costs as
4 depicted in the Operations and Efficiency Plan and its
5 presentation is mainly for information only. Staff made
6 several changes in the presentation of the numbers as
7 depicted in the OEP. Such changes did not affect the
8 dollar amount detailed in the Plan, however a number of
9 items were found to be costs not regulated by this
10 Commission. Staff's reconciliation attempts to disclose
11 these differences while still detailing how the amounts
12 used by the Staff relate to the OEP and Collaborative
13 Agreement.

14 Staff Exhibit AA-2 details Irregular Costs that were
15 deemed by the Staff to be known and measurable at the
16 time of Staff's review of the Company's books and
17 records. It is the Staff's opinion that the presentation
18 of these costs for the purposes of this proceeding will
19 allow the Commission the opportunity to be more informed
20 of upcoming financial events which will impact on
21 allowed costs for the period ending June 30, 2004.

22 Staff Exhibit AA-3 was presented by the Staff in order
23 to detail explanations proposed by the Staff in its

1 presentation of Irregular Costs. As was the case with
2 Staff Exhibit A-1, such proposed explanations will be
3 explained in detail later in my testimony.

4 **Q. Are these the entire Staff Exhibits associated with this**
5 **proceeding?**

6 A. Yes they are.

7 **Q. Previously in your testimony you stated that the Staff**
8 **had made a review of the new Cost Point Accounting**
9 **System. Would you please give the Commission the results**
10 **of that review?**

11 A. Certainly. The Cost Point Accounting System (System) is
12 the third type of accounting system used by the Company
13 during the previous periods reviewed by the Staff. Of
14 these differing types of accounting systems, the Staff
15 is of the opinion this System is the best suited for the
16 collection and presentation of the financial information
17 of the company.

18 **Q. Why do you make this statement?**

19 A. First, the System is the same as the one being used by
20 the Parent Company, Duratek Systems, Inc. The use of a
21 similar system allows for accounting entries to be made
22 directly without having to make a number of manual
23 entries to the books and records of the Company.

1 Previously, the Company had to make a number of manual
2 booking entries in order to make adjustments for labor
3 and fringes associated with labor entries. The use of
4 manual entries led to a number of contra accounts which
5 were somewhat awkward, especially for presentation
6 purposes. This alone is a major improvement.

7 **Q. Are there other reasons for the Cost Point System being**
8 **useful?**

9 A. Yes there is. The new system has proven to be far better
10 at allowing for the accumulation of costs by project or
11 business unit. It also allows for approved individuals,
12 both at the Company site and in the Maryland offices to
13 be able to make needed adjustments to the numbers.

14 **Q. Did the Staff make the necessary reviews of the new**
15 **system prior to commencing its review in September 2003?**

16 A. The Staff made an on-site review of the information
17 presented by the new system during the month of June
18 2003. Information presented by the system was examined
19 by the Staff. As a result of this examination, the Staff
20 reported to the Executive Director of its approval of
21 the new system. It is my understanding the Commission
22 was informed by the Director of this approval.

1 Q. Was the June on site examination the only time the Staff
2 made a review of the System?

3 A. No. The Company made certain that the Staff was
4 presented with information related to the System
5 throughout the fiscal year ending June 30, 2003. The
6 Staff made a number of reviews of this information to
7 determine that costs as accumulated in the JD Edwards
8 System would continue to be comparable to information
9 provided in the new system. The Company worked with the
10 Staff to make certain that no information would be lost
11 in the changeover.

12 Q. Was any information lost because of the switch over to
13 the new system?

14 A. The Staff has been able to determine that there was no
15 information loss during its reviews of the fiscal year
16 ending 2003 or during its on-site review of the
17 Company's books and records.

18 Q. Would you now present the results of the Staff's review
19 of costs occurring during the fiscal year ending June
20 30, 2003?

21 A. The Staff did a detailed review of the operations of the
22 Company during the fiscal year ending 2003. As a result,
23 the Staff found that the Company had actual costs as

1 reported totaling \$9,880,038. Costs allowed by the
2 Commssion in their Order #2003-188 totaled \$7,996,154.
3 This Commission allowed costs were composed of variable
4 costs totaling \$1,467,067, fixed direct costs of
5 \$2,907,010, fixed indirect costs of \$2,997,077 and
6 \$625,000 of costs associated with allowed Operating
7 Rights.

8 The total amount of actual expenditures as filed by the
9 Company exceeds the cost allowed by the Commission in
10 Order #2003-188 by \$1,883,884.

11 **Q. Does the Staff agree with the Company that the entire**
12 **\$1,883,884 should be reimbursed?**

13 **A.** No the Staff does not. As a result of the Staff's
14 review, a number of adjustments were proposed by the
15 Staff in which a reduction in the excess amount was
16 made. The Staff is of the opinion that excess costs as
17 filed should be reduced by \$321,652. Staff's Exhibit A-2
18 details the explanations associated with this proposed
19 reduction of \$321,652.

20 **Q. Before you begin to explain in detail each of the**
21 **adjustments proposed by the Staff, would you like to**
22 **make any statement concerning the costs experienced by**
23 **the Company during the fiscal year June 2003?**

1 A. Yes I would. Costs reported for the fiscal year
2 indicated that a substantial amount of costs were
3 associated with projects not considered in the previous
4 hearing before the Commission. As a result, there is a
5 substantial amount of costs which would be considered as
6 irregular under the Collaborative Agreement. These
7 projects are detailed in the filing of the Company under
8 Special Operational Considerations, (see page #7 of the
9 application, item #2). The projects detailed are
10 explanations for costs associated with storm water
11 management improvements for the prevention of water
12 runoff into adjacent properties, connection to a public
13 utility system which would allow for safe drinking water
14 and a better type of sewer system, and maintenance costs
15 associated with heavy rainfall during the fiscal year.
16 The heavy rainfall resulted in excess site maintenance.
17 The excessive maintenance costs were associated with
18 rental costs for pumps to remove water that had
19 accumulated from heavy rains, work needed on trenches
20 and additional grading work on the site itself.

21 Q. What evidence did the Staff examine related to these
22 costs?

1 A. The Staff reviewed paid invoices associated with the
2 work performed and labor records of the Company. The
3 Staff also examined photographs taken of the area during
4 the flood caused by heavy rains occurring during the
5 year. In addition, the Staff made an on-site inspection
6 of the work performed during the year as well as the on-
7 going work which was taking place during the Staff's on-
8 site review.

9 **Q. Do you have any comments to make about these costs?**

10 A. The Staff is well aware of the heavy rainfall that
11 occurred during the fiscal year throughout the State. It
12 should not be a surprise that such heavy rainfall could
13 cause problems for the site itself. However, I am not an
14 engineer so I cannot speak to the quality of the work
15 performed at the site, nor can I give the Commission an
16 expert opinion on the costs associated with the work
17 performed. I can only relate to the Commission that the
18 projects that were detailed in the filing and addressed
19 in my testimony did occur during the fiscal year and the
20 reasons given for this work being performed at the site
21 appear to the Staff to be logical under the
22 circumstances described by the Company.

1 Q. Were there other costs during the fiscal year ending
2 June 2003 that you would care to elaborate upon at this
3 time?

4 A. The Company filed a great deal of information concerning
5 the costs associated with fringe costs. As the
6 Commission is aware, this particular cost has been the
7 subject of a great deal of testimony in past hearings
8 involving Chem Nuclear. This hearing is going to be no
9 different as it concerns fringes and the correct fringe
10 rates. A great deal of information was made a part of
11 the filing concerning the actual fringe rate. In past
12 hearings the Staff has proposed a rate of 33.4% and the
13 Commission has made use of this rate in setting fringe
14 costs for the upcoming fiscal year's allowed costs. This
15 year however, the Staff will be testifying to a
16 different fringe rate which will result in an adjustment
17 being proposed by the Staff for reimbursable costs
18 associated with fringes. I will be offering more
19 detailed testimony concerning this issue later in my
20 testimony.

21 Q. Are there additional areas that you would like to
22 address concerning reimbursable costs for fiscal year
23 ending 2003?

1 A. Yes direct labor costs for fiscal year 2002/2003 are
2 \$116,953 in excess of the allowed direct labor in
3 Commission Order #2003-188. The Staff found during its
4 review that most of the excess was due to items such as
5 the peer level review of the Environmental Radiological
6 Performance Verification study that was required of the
7 Company during the fiscal year. In addition, direct
8 labor occurred for the construction and backfilling of
9 Trenches #93, #94, #95, and Slit Trenches #20 and #21.
10 Labor costs were also charged to the so-called Western
11 Swale project that began during the fiscal year.

12 The Staff also found that subcontractor labor was high
13 due to increased work loads during the second half of
14 the fiscal year. Such increases in subcontractor labor
15 were mainly found due to additional work on Trench #94
16 and site maintenance work performed by the Company
17 during the fiscal year.

18 One of the major cost contributors was associated with
19 the Maine Yankee Reactor Pressure Vessel which was
20 received and buried during the fiscal year. Costs in
21 excess of \$200,000 were associated with this project.
22 Actually, the Staff found that total cost exceeded
23 \$400,000 but this cost was split between Duratek's

1 transportation company and Chem Nuclear. Staff found
2 that the costs for handling an item such as this
3 pressure vessel can be very high, due to the size and
4 type of waste being handled.

5 Another cost account that was affected by the pressure
6 vessel was Contract Services. This cost associated with
7 the vessel exceeded \$200,000. Some of the cost
8 associated with the handling of the pressure reactor
9 vessel will be discussed later in my testimony. Contract
10 work performed on the Western Swale project also caused
11 increases in the Contractor Services account.

12 The majority of these costs were costs not expected by
13 the Company or the Staff and would be considered to be
14 irregular costs for future cost forecast.

15 The last item I will address before discussing the
16 Staff's adjustments in A-1 concerns Insurance Premiums.
17 This account exceeded the allowed cost by over \$160,000.
18 Since September 11, 2001, insurance costs appear to be
19 on the rise. The Staff can only recommend that the
20 Company do its best to hold these costs down. This may
21 call for some very imaginative types of "shopping" for
22 insurance in the future by the Company or its parent,
23 Duratek. The main thing however is to make certain that

1 the Company is properly insured in order that the State
2 of South Carolina not suffer unfairly in case of a
3 disaster that may occur at the site.

4 **Q. Would you like to explain the adjustments proposed by**
5 **the Staff and detailed in Staff's Exhibit A-1?**

6 **A.** Yes I will. The Staff is proposing 10 proforma or
7 correcting adjustments that resulted from the Staff's
8 review of the Company's books and records.

9 The first of these adjustments is made up of 2 separate
10 adjustments to Vault and Trench Cost. During the Staff's
11 review of Trench Cost, it was noted that Trench #86 had
12 been over amortized by \$25,744. Historically, the
13 Company had amortized trench costs based on cubic feet
14 of waste buried. Beginning in the fiscal year ending
15 June 30, 2003, the Company began to expense trench costs
16 as it was incurred during the year. However, costs which
17 had been booked prior to this change were continued to
18 be amortized by the Company until all the capitalized
19 costs were expensed through amortization. Due to an
20 accounting error which occurred during the fiscal year,
21 the Company failed to stop its amortization of costs
22 associated with Trench #86 at the point in which all of
23 the capitalized costs were amortized and over-amortized

1 costs by the \$25,744. The Staff is proposing to reduce
2 Trench Costs by this amount in order to correct the
3 costs associated with Trenches.

4 The second part of Staff's proposed adjustments to Vault
5 and Trench Costs was associated with Vault Costs. The
6 Staff performed a very detailed review of Vault Costs
7 using monthly reports of costs associated with buried
8 waste to determine the proper amount of Vault Costs for
9 the fiscal year. The Staff found several errors in which
10 improper costs had been used to determine Vault Costs
11 for the fiscal year. The Staff corrected all of the
12 errors noted during its review of the reports and found
13 that the booked cost of Vaults was \$18,040 greater than
14 the amount calculated by the Staff. As a result, the
15 Staff is proposing to reduce Vault Costs by this amount
16 to properly show costs of Vaults used in the fiscal
17 year.

18 The total amount of reduction resulting from these 2
19 Staff adjustments is \$43,784. This adjusted reduction is
20 shown as Staff Adjustment #1 in Staff Exhibit's A and A-
21 1.

22 Staff's Adjustment #2 is also made up of 2 separate
23 adjustments to Direct Labor. First, the Staff used data

1 furnished by the Company to identify all Direct Labor
2 for the fiscal year ending June 30, 2003. A difference
3 of \$1,125 was found to exist between the data furnished
4 and the amount booked by the Company for the fiscal
5 year. As a result, the Staff is proposing to reduce
6 Direct Labor by \$1,125.

7 Secondly, the Staff made the decision to review FTE
8 levels for labor during the fiscal year in order to
9 determine manpower levels for the year. In setting the
10 allowed labor costs for this fiscal year, in Order
11 #2003-188 the Commission had established labor costs
12 using FTE levels determined as a result of Staff's
13 relying on the OEP Plan. As a result, the Staff is of
14 the opinion that until further ruling by the Commission,
15 FTE levels should still be used for purposes of
16 determining proper manpower levels for each fiscal year.
17 According to the OEP Plan produced by Project Time and
18 Cost, the proper level of FTE's for the fiscal year
19 ending 2003 should be 58 FTE's. According to review work
20 performed by the Staff, it was determined that the
21 actual level of FTE's for the fiscal year was 59.41.
22 Average cost per FTE was determined by the Staff to be
23 \$40,467. This average cost was determined by using total

1 labor of \$2,404,127 divided by 59.41 FTE's. Total labor
2 was comprised of direct labor of \$1,380,059, direct
3 overtime totaling \$45,698, indirect labor of \$977,016
4 and total indirect overtime of \$1,354. The full amount
5 associated with FTE's was deducted from direct labor
6 instead of spreading such reduction over all of the
7 various labor accounts comprising total labor. The
8 result would have been the same but due to the non-
9 material amount of the reduction, Staff was of the
10 opinion that the time required to make such an
11 adjustment would be too costly. The amount of reduction
12 attributed to a recognition of a reduced amount of FTE's
13 totals \$57,058.

14 As a result of the two (2) proposed decreases to direct
15 labor, Staff is proposing to reduce direct labor by
16 \$58,183. This proposed adjustment is detailed as Staff
17 Adjustment #2.

18 **Q. Would you please continue to discuss Staff's proposed**
19 **adjustments for fiscal year 2003?**

20 **A.** Certainly. The next proposed adjustment deals with the
21 Company's fringe costs for the fiscal year. Fringe cost
22 has been an expense that has long been in question as to
23 the proper fringe rate to be applied to disposal labor.

1 In the original case in 2000, the Staff had proposed to
2 use 33.4%. This rate had been furnished to the Staff by
3 the Parent Company, Duratek. Since that original
4 hearing, there has been a great deal of testimony
5 presented about the use of this rate. The Company has
6 long argued that the rate was too low but over the
7 preceding two (2) hearings, Chem Nuclear and its Parent
8 had never furnished the Staff with enough evidence to
9 warrant a change in the originally ordered fringe rate
10 to be used by the Commission.

11 **Q. Is the Staff proposing to make a change in the fringe**
12 **rate for this particular hearing?**

13 A. Yes. The Company's Parent furnished the Staff with a
14 great deal of backup in an effort to demonstrate the
15 necessity to increase the 33.4% to a more suitable
16 level. In this case, the rate proposed by the Company
17 was 43.9%.

18 **Q. Does the Staff agree with this new rate of 43.9%?**

19 A. No, not exactly. Staff's review of the information
20 furnished does indicate that an increase is required to
21 36.52%.

22 **Q. How did you determine this new fringe rate?**

1 A. The fringe rate of 43.9% included in the Company's
2 Application included labor and fringe costs for calendar
3 year 2003. Additionally, the rate did not include labor
4 charged out to other business units by disposal
5 employees for 2003, nor was it adjusted for labor
6 charged to labor charged to disposal operations by other
7 business units for the test year ended June 30, 2003.
8 These two (2) failures to recognize the impact of labor
9 charged in by other business units and charged out to
10 other business units have a negative effect on the
11 Company's fringe rate calculation of 43.9%.

12 In past cases before the Commission, the Staff has used
13 total Barnwell disposal employee labor to determine
14 actual fringe cost for the period under investigation.
15 In the opinion of the Staff, that method should be
16 followed in determining reimbursable fringe cost for the
17 fiscal year 2003.

18 Total Barnwell disposal employee labor for the fiscal
19 year is \$3,035,062, including paid time off while total
20 fringe cost, for total disposal employees, for the same
21 period is \$1,108,374. However, the staff made a number
22 of reductions to these amounts before calculating
23 Staff's new fringe rate for reimbursable costs. Staff

1 reduced total labor costs of \$3,035,062 by \$13,485,
2 which represented unallowable labor costs, \$64,216,
3 which is shared support labor costs, \$358,624, which is
4 labor charged to other business units and added
5 \$159,525, which was labor charged from other business
6 units. The adjusted total of allowed labor for purposes
7 of computing fringe costs was \$2,758,262. At the same
8 time, fringe costs associated with the adjustments to
9 labor were also deducted or added to total fringe cost
10 of \$1,108,374. Fringes associated with unallowable labor
11 totaled \$4,925, shared labor fringes totaled \$23,452 and
12 fringes charged to labor charged to other business units
13 totaled \$130,969. Fringe cost associated with labor
14 charged by other business units totaled \$58,259. The
15 result of these adjustments reduced fringe costs to
16 \$1,007,287. Using these two (2) adjusted cost figures,
17 the Staff calculated an actual fringe rate of 36.52%
18 which includes paid time off. It is my opinion that this
19 is the proper rate to use in calculating fringe cost for
20 the fiscal year ending 2003.

21 The Staff also looked at using total booked labor as a
22 basis for developing a fringe rate, especially for
23 future fiscal years. In this case the Staff found that

1 using total booked labor of \$2,404,127 and adjusted
2 fringe costs of \$1,008,291, a rate of 41.9% resulted. It
3 is my opinion that this rate should not be used to
4 establish reimbursable costs since it has its basis in a
5 calculation that is different than past cases. However,
6 it is my opinion that due to the way labor is being
7 handled currently with the new Cost Point System, this
8 rate should be used to develop forecasted costs for
9 future fiscal years.

10 **Q. How is the Staff proposing to make use of the new Staff**
11 **fringe rate of 36.52%?**

12 **A.** As a result of several proposed adjustments to labor,
13 the Staff reduced total Barnwell labor from \$3,035,062
14 to an adjusted level totaling \$2,702,741. The adjusted
15 level of labor is composed of direct labor of \$1,367,574
16 and indirect labor of \$1,335,167. The indirect total of
17 labor shown above is also comprised of paid time off,
18 which is consistent with prior years.

19 Using the Staff's proposed rate of 36.52%, the Staff
20 calculated a level of direct fringe costs totaling
21 \$499,438. The Company had booked a level of direct
22 fringes totaling \$664,607. The Staff is proposing to
23 reduce direct fringe costs by \$165,169. This proposed

1 reduction will bring the level of booked direct fringe
2 costs to the \$499,438 calculated by the Staff.

3 The proposed reduction of \$165,169 is shown in Staff
4 Exhibit's A and A-1 as Staff Adjustment #3.

5 The Staff is also proposing to adjust indirect fringe
6 costs using the 36.52%. Applying this rate to the
7 indirect labor and paid time off, the Staff calculated a
8 level of fringe costs totaling \$487,572. The actual
9 booked amount of indirect fringe cost as filed by the
10 company totals \$370,397. As a result of the Staff's
11 review and use of a new proposed fringe rate, the Staff
12 is proposing to increase indirect fringe costs by
13 \$117,175. The increase to indirect fringes is being
14 proposed as Staff Adjustment #5.

15 By using the rate proposed by the Staff, the level of
16 fringe costs, both direct and indirect, has been
17 calculated using the same method proposed in all of the
18 previous hearings for Chem Nuclear and thereby Staff has
19 been consistent in its method for making fringe
20 adjustments. For purposes of setting allowable costs for
21 reimbursement for fiscal year 2003, the General Accepted
22 Accounting Principle or GAAP has been consistently
23 applied and the Commission has also been allowed the

1 opportunity to be consistent in determining cost for
2 fringes.

3 **Q. In what way has this consistency been maintained for the**
4 **setting of allowed reimbursable costs for fringes?**

5 A. In prior cases, the Company was using the JD Edwards
6 system of accounts. In those cases, the Company made use
7 of 3 separate fringe accounts. One of these accounts was
8 representative of direct fringe cost and the other two
9 represented indirect fringe costs.

10 One of those indirect accounts accumulated total
11 Barnwell fringe costs for each fiscal year ending. This
12 was the Allowed Fringe account. It was composed of all
13 fringe costs associated with Barnwell disposal
14 employees.

15 The second indirect fringe account, Calculated Fringe
16 Cost, was a Contra Account which was composed of fringe
17 costs allocated to direct operations and fringe costs
18 associated with other Business Units charging disposal
19 operations and disposal employees charging other
20 business units. The cost of fringes for other Business
21 Units was eliminated using this Contra Account while the
22 costs associated with direct fringes was then booked in

1 the direct fringe account known as Calculated Fringe
2 Costs.

3 Under the Cost Point System, one of these three (3)
4 accounts have been eliminated, but for purposes of this
5 hearing, the Staff has made use of the same theory used
6 in previous cases for setting its fringe cost for
7 allowed reimbursable expenses.

8 **Q. Will the Staff make use of the same theory for setting**
9 **fringe costs in future hearings?**

10 A. Not necessarily. The use of the method previously used
11 may not be useful based on the Collaborative Agreement
12 reached by the Parties and accepted by the Commission in
13 its Order accepting the Agreement for future cases.

14 **Q. Why would this make a difference in the calculation of**
15 **fringe costs?**

16 A. Using the new accounting system, Cost Point, fringe
17 costs can be associated directly with booked labor.
18 Using Cost Point, labor can be booked directly to the
19 proper Business Units. This would eliminate the use of
20 having to make contra adjustments to spread labor and
21 fringes. This is one of the strengths of the new Cost
22 Point System of Accounts.

1 Another reason for changing the method is related to the
2 Collaborative Agreement between the Parties in the case.
3 Using the OEP Plan, which breaks out costs by fixed,
4 variable and irregular, labor can be grossed up for
5 fringe costs at the proper rate. Under this method, the
6 Commission could use the Staff proposed 41.9% fringe
7 rate to determine fringe costs for all future cases.

8 However, for the purposes of this hearing, it is the
9 Staff's opinion that fringe costs for fiscal year 2003
10 will still need to be determined making use of the
11 method proposed by the Staff in the previous cases.

12 **Q. Does this not appear to be inconsistent with your**
13 **previous proposals and create a problem with your theory**
14 **of consistency with prior cases?**

15 **A.** No. Due to the changes resulting from the change in
16 accounting systems and also the Agreement between the
17 Parties, this accounting change would not, in my
18 opinion, violate any General Accepted Accounting
19 Principles.

20 **Q. Please discuss Staff's review of the cost of direct**
21 **materials for the fiscal year ending June 2003?**

22 **A.** The Company booked costs totaling \$191,248 which was
23 associated with the skid used by the transportation

1 company in its delivery of the Maine Yankee Reactor
2 Pressure Vessel to the disposal site at Barnwell.

3 The Company has proposed coverage for cost associated
4 with the design of the skid as it relates to the soil-
5 bearing pressure and stability control requirements at
6 the site. These requirements are mandated by DHEC. In
7 this case, the Company used a 50% split in the cost of
8 the skid to allocate the \$191,248. No design cost was
9 involved in the Company's allocation of cost, even
10 though some of that cost was most certainly related to
11 the design of the skid as it related to the
12 specifications for burial in the trench. The Company has
13 stated that revenue associated with disposal of the
14 Maine-Yankee Reactor Pressure Vessel, and which such
15 revenue was paid to the State, includes cost coverage
16 for the skid and other burial or disposal cost. For this
17 reason, in order that cost and revenue could be matched
18 together, the Company proposed to book cost such as the
19 cost of the skid to disposal operations.

20 Staff considered the possibility of using some other
21 type of allocation to allow for the cost recovery of the
22 skid other than the Company's 50% split of construction
23 cost.

1 **Q. What other type of allocation did the Staff consider?**

2 A. The Staff looked at using a split associated with funds
3 or revenues as split between transportation and disposal
4 cost. Some \$16.9 million dollars was the total of such
5 cost and at least \$7.2 million of that was revenue
6 reported to the State for disposal operations. If this
7 method had been used, the actual amount, in the Staff's
8 opinion, allowed would have been about \$26,354 less than
9 the requested \$191,248.

10 **Q. Were affiliated relationships involved in this case?**

11 A. Yes. In the case of the Maine Yankee Reactor Pressure
12 Vessel, the transporting company was Duratek, the parent
13 of Chem Nuclear. This parent/subsidiary relationship has
14 led the Staff to closely examine the use of skids by
15 Chem Nuclear. Care was needed in the Staff's opinion to
16 make certain that the disposal charge for using the skid
17 was not the result of the relationship between the two
18 companies. As a result, Staff has found that a similar
19 situation took place during the current fiscal year
20 which is not currently under review. The Connecticut
21 Yankee Reactor Pressure Vessel was delivered to Barnwell
22 and as a result, the Company did purchase the skid used
23 to deliver the vessel for support of the vessel in the

1 disposal trench. In another case, the skid used to
2 transport a vessel to the site was not used by the
3 company. In this case, the Company built a separate
4 support system which was utilized to provide stability
5 to the vessel once place in the trench. In both these
6 cases, neither of the transporters or shippers was the
7 parent of Chem Nuclear.

8 **Q. Who owns the skid involved in the present case?**

9 A. Staff is of the opinion that ownership of the skid is
10 held by the transportation carrier and not Chem Nuclear.
11 This being the case, then it would appear logical that
12 Chem Nuclear would either need to charge some cost for
13 the use of the skid as a support mechanism or have the
14 vessel removed from the transporting skid and supported
15 in the trench by some other means, which would have to
16 be the responsibility of Chem Nuclear to provide. This,
17 as stated previously, appears to have been the case in
18 other shipments of vessels to the burial site.

19 For this reason, the Staff is disallowing the requested
20 coverage for the \$191,248 associated with the skid and
21 instead proposes to use the contracted amount to
22 determine the actual level of cost associated with
23 disposal operations. As a result, the Staff is proposing

1 to reduce direct materials cost by \$26,354. The
2 adjustment level was determined using the percentage
3 associated with the \$16.9 million dollar contract of
4 which \$7.2 million was associated with disposal
5 operations.

6 **Q. What does the Staff propose for the future in this**
7 **area?**

8 A. In the future, the Staff is of the opinion that careful
9 detail must be given in each case when a vessel of this
10 type is to be buried at the site. Our acceptance of the
11 cost, which totals \$164,894, in no way should be used as
12 a precedent for future cost that could be similar in
13 nature. In each future event, how the vessel is to be
14 supported once in the trench should be the determining
15 factor as to cost recognition. In addition, the company
16 should be required to prove that whatever method is used
17 to support the vessel, the cost allowed should be the
18 lesser of using the delivery skid, which could mean the
19 use of a market value approach or the cost to build an
20 approved structure to support the vessel. The Staff
21 recognizes that market value could be difficult to
22 determine since it appears that each individual skid may
23 be built to specifications related to the vessel being

1 transported. This, in the opinion of the Staff, could be
2 taken to further mean that there may be little market
3 value for a skid once it is used for the transporting of
4 the vessel. Its lack of future use may also mean the
5 skid has little or no real future value to the
6 transporting carrier, and therefore only be worth its
7 scrap value.

8 **Q. Whose responsibility is the construction of the skid?**

9 A. Clearly, the construction of the skid is the
10 responsibility of either the transporting or generator
11 company. The vessel cannot be transported without use of
12 an approved skid to provide for a safe delivery. In
13 order that the skid will serve a dual purpose, one for
14 transporting and the other for providing stability once
15 the vessel is placed in the trench, the transporting
16 carrier or generator company would have to have a skid
17 fabricated to meet both of these characteristics. If
18 not, once transported, the vessel would have to be
19 lifted from the carrier skid and placed on a separate
20 supporting frame which would have had to been built by
21 Chem Nuclear for the purpose of stabilizing the vessel
22 once in placed in the trench. This stabilizing frame
23 would itself have to be built in compliance with the

1 same DHEC specifications in mind. In my opinion, all of
2 this must be taken into consideration when determining
3 cost recovery and as stated before, the market value of
4 the skid or some form of an avoided cost approach, if
5 utilized by Chem Nuclear, should, in the Staff's
6 opinion, be considered in the determination of allowed
7 cost.

8 It would make little sense to purchase the skid if some
9 other type of device could be used by the company to
10 stabilize the vessel and this device could be provided
11 at a cost less than market value of the skid.

12 **Q. Does the Staff have any opinion as to how market value**
13 **of such a skid could be determined by Chem Nuclear?**

14 **A.** Actually, I do not. The skid appears to be fabricated
15 for a specific purpose. Once used, it may be worth
16 little to the transportation carrier or anyone else
17 other than the company burying the vessel. This being
18 said, the question of value could be difficult to
19 determine. However, I would think that it would be the
20 responsibility of Chem Nuclear or its parent, Duratek,
21 to make the effort to determine the value of the skid
22 and for the Commission to make the decision as to the
23 adequacy of that effort as it relates to value.

1 Q. Did the Staff propose an adjustment to indirect overtime
2 as shown in the application filed by Chem Nuclear?

3 A. As a result of the Staff's review of data furnished by
4 the Company during our on site visits, it was determined
5 that indirect overtime was overstated by \$351. The
6 Company had booked a dollar amount totaling \$1,354.
7 Documents detailing chargeable overtime by employee
8 resulted in a total overtime amount equaling \$1,003.

9 As a result, the Staff is proposing to reduce indirect
10 overtime by \$351 using Staff Adjustment #6.

11 Q. Would you please discuss your Accounting Adjustment #7
12 at this time?

13 A. Yes. The Company had booked \$275,562 in Consultant Fees
14 during the fiscal year. The Staff did a thorough review
15 of the costs associated with this account and found the
16 there was a total of \$1,501 in booked expenses that
17 could not be identified or traced to proper backup.

18 Also, the Company had booked \$123,698 in expenses
19 associated with the OEP Plan performed by Project Cost
20 and Time. In the prior hearing, the Commission had held
21 in Order #2003-188 that 50% of the costs associated with
22 the study be reimbursed for fiscal year ending 2002 and
23 the remaining 50% be deferred until such a time as the

1 Commission had the opportunity to hear testimony
2 concerning the Study. As of yet, no testimony has been
3 offered by the Company. However, it is my understanding
4 that such testimony will be presented in this case. It
5 is my opinion that until this occurs, the amount of
6 \$123,698 should continue to be deferred until the
7 Commission has had the opportunity to hear such evidence
8 concerning the Study and have been given the opportunity
9 to ask any questions it deems appropriate. As a result,
10 if the Commission is moved to accept the Plan as being
11 in compliance with the Order in which the Study was
12 requested, then the Commission could allow the remaining
13 costs for the Plan.

14 As a result of these two (2) issues concerning
15 Consultant Fees, the Staff is proposing in Adjustment #6
16 to reduce the booked amount of Consulting Fees totaling
17 \$275,562 by \$125,199. As result of this proposed Staff
18 Adjustment, reimbursable expenses for Consulting Fees
19 would be reduced to a level equaling \$150,363.

20 **Q. Staff has increased the amount of Depreciation Expense**
21 **booked by the Company. Can you explain why the Staff is**
22 **proposing this increase in depreciation for the fiscal**
23 **year?**

1 A. As is consistent with all of the prior year's cases for
2 Chem Nuclear, the Staff has annualized depreciation
3 expense for the fiscal year under review. In prior
4 cases, this normally resulted in a reduction of booked
5 depreciation expense. However, this year the Staff found
6 as a result of annualizing depreciation that the expense
7 booked was not adequate to cover the annualized amount
8 which Staff had calculated to be \$328,894.

9 As a result of this calculation by the Staff, we are
10 proposing in Staff Adjustment #8 to increase
11 depreciation by \$5,846. This will increase the booked
12 amount of depreciation from \$323,048 to the calculated
13 amount of \$328,894.

14 **Q. Would you please continue?**

15 A. In Staff's review of the buildings and utilities
16 account, the Staff found that the Company had failed to
17 make a manual adjustment required to properly remove
18 telephone costs associated with Hittman, another
19 Business Unit. The manual adjustment was normally made
20 by the Company using employees as the method of making
21 the calculation. In this case, eighty nine (89)
22 employees that make up the base amount and five (5) of
23 these employees are chargeable to Hittman. Using these

1 employee counts, the proper rate to make the adjustment
2 is 5.62%. The Staff found that the proper amount had
3 been allocated for half of the year while the other half
4 had not been properly allocated to non-Barnwell
5 Operations.

6 Using the 5.62% rate, the Staff calculated that a
7 reduction totaling \$6,300 was required to properly show
8 allowed reimbursable costs for utilities. Staff
9 Adjustment #9 was used to make the reduction of \$6,300
10 thereby reducing booked cost for buildings and utilities
11 from \$197,429 to an adjusted total of \$191,129.

12 **Q. Would you please explain the Commission Staff's final**
13 **proposed adjustment for fiscal year 2003?**

14 **A.** The Company is allocated general and administrative
15 costs annually which are related to work performed by
16 the Columbia, SC and Columbia, MD offices.

17 As has been the case in prior years, the Staff reviewed
18 the procedures used to allocate these costs to Chem
19 Nuclear. As a result of the Staff's review, no
20 disagreement was found in the methods used to make the
21 allocation of these expenses; however the Staff noted
22 that the allocation did not fully eliminate non-
23 allowable costs. The Staff had found in its previous

1 reviews, that at least 5.4% of allocated costs were
2 considered to be non-allowable. In this review, it was
3 noted that the amount deemed as non-allowed was less
4 than that rate. The amount was found to be 3.6% of the
5 total amount allocated. The Staff is of the opinion that
6 this rate of non-allowables is not adequate for purposes
7 of setting reimbursable expenses for the fiscal year.

8 The Staff found by reviewing non-allowable cost, that
9 the normal rate of non-allowed expense was approximately
10 7%. The Staff is of the opinion that, without any other
11 evidence to the contrary, an adjustment should be
12 proposed to reduce the allocated amount from \$843,751 to
13 a level equaling \$824,418. The adjustment proposed by
14 the Staff is a reduction of \$19,333. Staff's Adjustment
15 #10 is proposed to make the \$19,333 reduction for fiscal
16 year 2003.

17 **Q. Would you please explain to the Commission the results**
18 **of the Staff's review of the actual various classes of**
19 **waste, vault cost and trench cost for the fiscal year**
20 **2002/2003?**

21 **A.** The Staff reviewed records associated with variable
22 costs rates for classes of waste, using vault and trench
23 costs. This analysis revealed that the Applicant
24 incurred costs for different types of vaults, ie;
25 cylindrical, rectangular, slit, and other, which can be

1 used within one type of trench with varying cubic feet
2 related to each type of vault.

3 Additionally, different classes of waste, A, B, C, etc.,
4 can be buried within one type of trench. For these and
5 other reasons, it was difficult for the Staff in
6 previous hearings to project with accuracy the expected
7 variable costs for the applicant. This difficulty occurs
8 not only due to volume of the waste received and buried,
9 but, also, due to the class and type of waste received
10 and buried.

11 As a result of these difficulties, the Staff had
12 recommended the applicant implement a method to track
13 variable cost by class of waste, vault types, and trench
14 type used to bury waste.

15 After the Staff's request, the applicant designed a
16 tracking program, which would take the existing database
17 and develop a report which the Staff could use in its
18 review of variable costs by class of waste.

19 The review of the current database report found some
20 errors, which the Staff had corrected. Once these
21 corrections were made by the applicant, the necessary
22 information required by the Staff was found to be
23 accurate as it pertained to variable cost by classes of
24 waste.

25 **Q. Would you please discuss the variable cost break down**
26 **for trench #86?**

27 **A.** Yes. Trench #86 was reviewed, and it was found that
28 33,372 cubic feet of waste was buried in the trench
29 during the fiscal year ending June 30, 2003. This amount
30 consisted of 28,946 cubic feet of class A waste, 1,635

1 cubic feet of class B waste and 2,791 cubic feet of
2 class C waste.

3 Total cost associated with the 33,372 cubic feet of
4 waste buried in trench #86 totaled \$773,812. This cost
5 consisted of \$753,272 in vault cost and \$20,540 in
6 trench amortization. The amount of trench amortization
7 was an adjusted amount. The Staff had found that the
8 company had over amortized the trench cost by \$25,744.
9 This amount was eliminated by the Staff in its proposed
10 Staff adjustments.

11 The Staff, as a result of its review, found that the
12 total cost of \$753,272, consisted of \$534,976 for
13 cylindrical vaults, \$202,884 related to rectangular
14 vaults and \$15,412 related to slit vaults.

15 Cumulative trench construction cost as of June 30, 2003
16 totaled \$1,202,017. The rate of amortization during the
17 fiscal year was \$228.00. This rate varies during the
18 year due to trench construction cost and estimated
19 remaining capacity in the trench.

20 During its review, the Staff also found unamortized
21 trench construction cost for fiscal year end totaled a
22 negative \$25,744. This negative amount was due to an
23 accounting error which allowed for an over amortization
24 of cost during the period. As mentioned above, the Staff
25 has proposed an adjustment to correct this negative
26 amount.

27 The Staff also found that a total of 203 vaults were
28 placed in trench #86 during the fiscal year. The
29 addition of these 203 vaults brought the accumulated
30 number of vaults in the trench to 3,943 vaults.

1 During fiscal year 2003, the Staff calculated that the
2 applicant capitalized a total of \$15,860 in labor and
3 other cost in trench #86.

4 Staff was able to break down the cost of \$773,812 by
5 class of waste buried in the trench during the fiscal
6 year. Class A waste cost totaled \$671,204, class B waste
7 cost was \$37,900 and class C waste cost totaled \$64,707.
8 Using the data reviewed by the Staff, total cubic feet
9 of waste were 33,372 and total cost was calculated to be
10 \$773,812, Staff determined a cubic foot rate of \$23.19
11 for trench #86.

12 **Q. Are there other trenches the Staff reviewed during its**
13 **audit of the applicant's filing?**

14 A. Staff also reviewed data for trench #93. As a result,
15 the Staff found that 9,322 cubic feet of waste was
16 buried during fiscal year ending June 30, 2003. This
17 total of waste consisted of 2,465 cubic feet of class A
18 waste, 3,967 of class B waste and 2,890 cubic feet of
19 class C waste.

20 Total cost associated with the trench was \$249,245. This
21 cost consisted of \$227,506 in vault cost and \$21,739 in
22 trench amortization expense. Staff's review found that
23 all of the vault cost, \$227,506, was related to
24 cylindrical vaults.

25 During fiscal year 2003, Chem Nuclear capitalized \$3,022
26 of labor and other cost. Cumulative trench cost for
27 trench #93 totaled \$179,825 as of June 30, 2003.

28 The amortization rate per vault varied from \$370.33 for
29 two (2) months ending August 2002 and \$244.96 for the
30 remaining months of fiscal year ending June 30, 2003.

1 Amortization rates will vary due to trench construction
2 cost and estimated remaining capacity in the trench.

3 Staff found that unamortized trench construction cost as
4 of June 30, 2003 totals \$0. This has occurred due to the
5 fact the company is now expensing trench construction
6 cost in the period it occurs instead of capitalizing the
7 cost and amortizing such cost over future periods.

8 Using data furnished to Staff, it was found that the
9 total number of vaults buried in trench #93 during the
10 fiscal year was 75 and the cumulative total is 489.

11 Staff calculated that the total trench cost of \$249,245
12 consisted of \$65,913 for class A waste, class B waste of
13 \$106,068, and class C waste of \$77,264. Using total cost
14 and cubic feet of waste, the Staff calculated a per
15 cubic foot cost of \$26.74 for trench #93.

16 **Q. Is this all of the trenches that the Staff reviewed**
17 **during its audit of Chem Nuclear?**

18 A. No. The Staff found that the company had begun using
19 trench #95, which was open for activity in February,
20 2003. After that date, a total of 12,636 cubic feet of
21 waste were buried in the trench as of fiscal year ending
22 2003. This total consisted of 4,084 cubic feet of class
23 A waste, 4,760 cubic feet of class B waste, and 3,792
24 cubic feet of class C waste.

25 Total cost associated with these cubic feet of waste
26 totaled \$299,170 of vault cost and \$0 cost of trench
27 amortization. As previously mentioned in my testimony,
28 the company is now expensing trench construction costs
29 as it is incurred and not capitalizing such costs. This
30 therefore, eliminates the need for amortization. Staff

1 also found that all of the vault cost for the fiscal
2 year was related to cylindrical vaults.

3 Staff's review found that a total of 96 vaults were
4 buried in the trench during fiscal year ending June,
5 2003.

6 The Staff was able to breakdown total cost by class of
7 waste buried. As a result, buried class A waste cost
8 totaled \$96,703, class B waste buried was \$112,710, and
9 class C waste buried totaled \$89,757.

10 The total cubic foot cost was calculated by the Staff to
11 be \$23.68 for trench #95.

12 **Q. Were there other types of trenches used at the waste**
13 **site during the fiscal year?**

14 A. Yes, the company made use of slit trenches during the
15 fiscal year.

16 **Q. Would you please continue with your testimony as it**
17 **concerns slit trenches at the waste site?**

18 A. The first slit trench was slit trench number #20. This
19 trench contained 687 cubic feet of class C waste during
20 the fiscal year. Total cost associated with the burial
21 of this class C waste was \$136,350. This cost was made
22 up of \$62,328 in vault cost and \$74,022 in trench
23 amortization cost.

24 Trench amortization rates varied from \$3,188.77 for the
25 period starting July, 2002 through September, 2002,
26 changing to \$6,417.11 for the remaining months of the
27 fiscal year.

28 The total number of vaults buried in the slit trench
29 during the fiscal year totaled 12 vaults. The

1 accumulated number of vaults for the period ending June,
2 2002 totaled 16 slit vaults.

3 The total amount of construction cost, which consisted
4 of labor and other cost, for the fiscal year was
5 \$18,491. Cumulative construction cost for the period
6 ending June, 2003 totaled \$85,526.

7 The Staff calculated a cost per cubic foot of \$198.36.

8 **Q. Is there another slit trench being utilized by the Chem**
9 **Nuclear currently?**

10 **A.** Yes there is. Slit trench number #21 is actively used by
11 the company in its operations. Activity began in trench
12 #21 during the month of May 2003. During the fiscal year,
13 the company buried 115 cubic feet of waste in this
14 trench. The entire 115 cubic feet of waste buried was
15 class C waste.

16 Total cost associated with trench #21 buried waste was
17 \$10,685. This total cost was associated with vaults and
18 there was no trench amortization being booked during the
19 fiscal year.

20 Trench #21 was put into operation during this fiscal
21 year. The number of slit vaults buried in the trench
22 during the fiscal year was two (2). Since this was the
23 first year the slit trench was utilized, this total is
24 also the number of vaults currently buried in this
25 trench.

26 The Staff calculated a cost per cubic foot of waste for
27 this trench. The cubic foot rate totaled \$93.07 which
28 consists of vault cost only.

29 **Q. You have discussed several times in your previous**
30 **testimony the change from amortizing accumulated trench**

1 costs over the life of the trench and instead expensing
2 trench costs as they are incurred. Does the Staff have
3 any problem with this switch in the way trench cost is
4 recognized?

5 A. No, the Staff has no problem with this switch in
6 accounting recognition of trench cost. As I stated in my
7 testimony which was pre-filed in last year's case, the
8 levels of cubic feet allowed for burial at the site are
9 decreasing each year. In the Staff's opinion, this
10 reduction in cubic feet allowed for burial makes it
11 unnecessary to amortize trench cost and far more
12 reasonable to expense such cost as it is incurred.

13 Q. Would you please summarize your conclusion on variable
14 cost rates as related to class of waste and compare
15 these actual waste rates to those approved by the
16 Commission in its last Order, #2003-188?

17 A. Certainly. Staff has combined all of the various trench
18 and vault costs, as well as reported cubic feet of waste
19 received and buried during the fiscal year ending June
20 30, 2003.

21 Total class A cost was found to be \$833,821 and cubic
22 feet of Class A waste totaled 35,496 for the same time
23 period. Using these totals, the Staff calculated an
24 actual cost per cubic foot of class A waste to be
25 \$23.49. In its Order #2003-188, the Commission approved
26 a class A waste rate of \$23.90 per cubic foot of waste.
27 The actual rate of \$23.49 is \$.41 per cubic foot less
28 than the rate authorized by the Commission for class A
29 waste.

1 Class B total waste cost was calculated by the Staff to
2 be \$256,678 and cubic feet of class B waste received and
3 buried was 10,362. Staff calculated a per cubic foot
4 rate of class B waste to be \$24.77. In Order 2003-188,
5 the Commission approved a rate of \$24.76 per cubic foot
6 of class B waste. The actual class B waste rate is \$.01
7 higher than that approved in the Order.

8 Class C waste rate was calculated using all class C
9 vault and trench cost, which totaled \$378,762. Total
10 cubic feet of all class C waste were found to be 10,273
11 for the twelve month period ending June 30, 2003. Using
12 these totals, the Staff calculated a class C waste rate
13 of \$36.87 per cubic foot. This rate includes both class
14 C waste buried in both regular and slit trenches. For
15 class C waste buried in regular trenches only, the total
16 cost was \$231,727 and the cubic feet of waste received
17 and buried was 9,472. Using these totals, the Staff
18 calculated a class C waste rate of \$24.47 per cubic foot
19 of waste. The approved rate in Commission's Order #2003-
20 188 was \$24.13 per cubic foot of waste. The actual rate
21 of \$24.47 exceeded the approved rate by \$.34 per cubic
22 foot.

23 Lastly, the Staff calculated the class C slit trench
24 rate per cubic foot. Using total cost of \$147,035 and
25 cubic feet of waste totaling 802, the Staff calculated a
26 cubic foot rate of \$183.29. The Commission approved rate
27 in Order #2003-188 was \$137.65 per cubic foot of class C
28 slit trench waste. The actual cubic foot rate exceeded
29 the allowed rate by \$45.64 per cubic foot.

1 Q. Does the Staff have an opinion about the actual per
2 cubic foot rates as compared to the allowed rates in
3 Order #2003-188?

4 A. Yes. The Staff believes that the rates are very similar
5 to those found in Order #2003-188. With the exception of
6 class C slit trench waste, the differences are all less
7 than \$1.00 per cubic foot. The class C slit trench waste
8 rate, while higher than proposed in the Commission's
9 Order #2003-188, is the result of actual cost
10 experienced by the company. Costs associated with class
11 C slit trenches were traced to the company's corrected
12 data base. Due to this, the Staff is of the opinion that
13 the Commission should allow the actual costs, as
14 detailed in the company's data base, associated with
15 class C slit trench cost for the period ending June 30,
16 2003.

17 Q. Does this conclude the proposed Staff Adjustments for
18 Allowable Costs to be reimbursed?

19 A. Yes, this is all of the proposed Staff Adjustments for
20 reimbursed costs for fiscal year ending 2003.

21 Q. Would you now summarize the results of your review of
22 reimbursable costs for fiscal year 2003?

23 A. Staff has proposed to reduce the requested amount of
24 booked costs, which totals \$9,880,038, by \$321,652. The
25 result of these proposed Staff Adjustments reduces the
26 booked amount of costs to a level of \$9,558,386.

1 The adjusted amount is in excess of the allowed amount
2 Ordered in the previous Commission Order #2003-188. Such
3 excess costs equal \$1,562,232. It should be noted that
4 this excess amount is approximately 19.5% greater than
5 that ordered. It must be noted however, that a number of
6 items in which I have referred to previously in my
7 testimony occurred early in the fiscal year, because
8 cubic feet of waste was down and manpower was used in
9 ways not associated with burying waste. This had the
10 effect of causing most of this over-expenditure during
11 the fiscal year.

12 While this over expenditure is somewhat alarming to the
13 Staff, it must be noted that irregular cost will at
14 times cause excessive amounts of expenditures. These
15 types of costs by their nature are going to be difficult
16 to predict and consequently allow for the setting of a
17 dollar amount that will adequately cover these types of
18 costs.

19 It appears to the Staff that the Company, in an effort
20 to utilize its work force, accomplished several projects
21 such as the work associated with water problems which
22 were the result of heavy rains during the year. Also,
23 the costs associated with the Maine Yankee Pressure

1 Reactor Vessel were fairly extensive and were certainly
2 not expected by the Staff when predicting costs for the
3 fiscal year 2003. At best, any prediction by the Staff
4 is only as good as the information available at the time
5 of the prediction. Changes that occur following any
6 estimate can cause the best of predictions to be out of
7 line with what may actually take place.

8 **Q. Is there any way to overcome the problems you are**
9 **referring to as related to estimating or predicting**
10 **future allowed costs?**

11 A. It is my opinion that this is always going to be a
12 problem for the Commission. However, in order to make an
13 attempt to eliminate the "guess" work associated with
14 the setting of future costs, the Parties in this case
15 have signed on to an agreement known as the
16 Collaborative Agreement. This Agreement was the result
17 of an attempt by the Parties to eliminate some of the
18 "guess" work in setting costs for the future.

19 **Q. How does the Collaborative Agreement aid in the setting**
20 **of future rates?**

21 A. Again, let me state for the record that even the
22 Agreement is based on assumptions that may prove to be
23 wrong at some time in the future. However, it must be

1 noted that the Commission Ordered OEP Plan was the basis
2 for the Agreement. Much of the ability of the Agreement
3 to predict future costs will have as its foundation the
4 OEP Plan. How well the Plan accomplished this required
5 task will in part be the determining factor in how well
6 the Agreement will perform in the future.

7 No matter what else can be stated at this point
8 concerning forecasting of future events and costs, the
9 Staff is making use of the Agreement and Plan in its
10 determination of costs for the fiscal year ending 2004.
11 All of the Parties involved in the Collaborative
12 Agreement are hopeful that the Agreement among the
13 parties will aid in the future hearings held before the
14 Commission in the setting of future cost estimates.

15 **Q. Would you now like to inform the Commission of the**
16 **results of the Staff's review for allowed costs for**
17 **fiscal year ending June 30, 2004?**

18 **A.** The review work performed by the Staff and the resulting
19 methods used to establish Staff's forecasted cost
20 numbers for fiscal year 2004 was very different than the
21 work and methods in past cases.

22 In the past cases, the Staff made use of Exhibits that
23 were very similar in design to those Exhibits used to

1 develop reimbursable costs. In those cases, the Staff
2 normally started with the previously ordered allowed
3 forecasted cost and made adjustments to either increase
4 or decrease those cost numbers.

5 In this case, the Staff has developed an Exhibit that is
6 divided by type of cost. Costs are assumed to be Fixed,
7 Variable or Irregular in nature. The basis for making
8 these determinations of cost type was the OEP Plan and
9 the Collaborative Agreement between the Parties in the
10 case.

11 The Company had included in its Application the results
12 of the Agreement with several changes. These changes
13 were mostly increases in labor costs associated with an
14 agreed upon annual 3.5% increase to cover changes in
15 labor such as pay raises.

16 Some differences between the Parties still remain even
17 after the Agreement was signed and accepted by the
18 Commission.

19 **Q. What are these differences?**

20 A. There was around a 5% difference in agreed upon costs
21 that was never settled by the Parties. The decision was
22 made by the Parties to file the Agreement with this

1 difference and let the Commission make the decision as
2 to how these costs would be handled.

3 **Q. Does the Staff have a recommendation as to the manner in**
4 **which the 5% difference is to be settled for purposes of**
5 **setting costs for 2004?**

6 A. Yes, the Staff is taking a middle of the road approach
7 on these costs. By this, I mean the Staff is of the
8 opinion that the difference should be split in a 50/50
9 manner. Thereby, each of the parties with whom
10 differences have occurred will get some benefit of the
11 cost upon which the parties failed to agree.

12 **Q. Were there any other areas concerning the Agreement that**
13 **the Staff may have proposed a different approach in the**
14 **forecasting of 2004 costs?**

15 A. The Staff did make some changes, especially as is
16 related to labor and to fringe costs.

17 **Q. Do you believe that by taking a different approach than**
18 **that recommended by the Agreement, the Agreement will be**
19 **void, especially since the Commission has already**
20 **approved the Agreement?**

21 A. First, let me state that I am not of the opinion that by
22 taking a different approach I am going against the
23 Agreement or the Order accepting the Agreement.

1 In setting cost for 2004, I made use of both the
2 Agreement and the OEP Plan. However, I was of the
3 opinion that since the OEP Plan speaks to employee
4 levels or FTE's as they are referred to in the Plan,
5 Staff should and must take into consideration as much as
6 possible the levels of employees or FTE's as they are
7 detailed in the Plan.

8 **Q. Did you make an attempt to use FTE levels in setting**
9 **labor for the 2004 fiscal year?**

10 A. Yes I did. According to the OEP Plan, there is a total
11 of \$2,433,402 in Disposal Labor. However, \$18,440 of
12 this amount is Decommissioning Labor Costs. Eliminating
13 this amount reduces Disposal Labor to a total of
14 \$2,414,962. This amount is made up fixed labor, 73.79%,
15 variable labor, 16.76%, and irregular labor, 9.45%.
16 In order to determine an FTE level, the Staff started at
17 the last known level calculated. This was 59.41 FTE's.
18 The OEP Plan calls for an FTE level of 56.0 FTE's as of
19 fiscal year 2004. The difference between these two FTE
20 levels is 3.41 FTE's. By using average FTE labor cost
21 per FTE, the Staff allocated the total of 3.41 FTE's
22 between the various labor types and is proposing to
23 reduce labor for those calculations. This is also going
24 to have an effect on fringe costs too.

25 **Q. You just mentioned fringe costs. How did you determine**
26 **the amount of fringe costs for fiscal year 2004,**
27 **especially since the rate has been changed?**

1 A. I addressed this issue previously in my testimony, but I
2 will now give a more in depth explanation. Since we are
3 using the OEP Plan as well as the Agreement to establish
4 future costs and the Company now has in place the Cost
5 Point System, I used the 41.9% rate to develop fringe
6 costs to be allowed for 2004. Under this approach, once
7 the Staff had established a level of labor, the 41.9%
8 rate was applied to the labor to calculate 2004 fringe
9 costs.

10 However, I would like to conclude my testimony
11 concerning fixed direct and indirect labor cost for
12 2004.

13 I had determined using the 73.13% percentage for fixed
14 labor that approximately \$1,760,826 made up fixed labor.
15 Of this amount, \$411,546 was direct fixed labor, and the
16 remaining \$1,349,280 was indirect fixed labor.

17 Using the FTE levels shown above, the Staff reduced
18 fixed labor by \$138,613. This change using FTE levels as
19 a reduction resulted in an adjusted level of fixed
20 direct labor of \$379,149 and fixed indirect labor of
21 \$1,243,064.

22 Staff's next step was to calculate both direct and
23 indirect fixed fringe cost based on the adjusted levels
24 of fixed labor. The calculation was accomplished by
25 applying the fringe rate of 41.9% to each of the labor
26 cost numbers. Using this factor, Staff calculated direct
27 fixed fringe costs of \$159,031 and indirect fixed fringe
28 costs of \$521,386.

29 Q. Are these adjustments you are proposing for the fiscal
30 year ending 2004 cost numbers all of the Staff's

1 **proposed changes for the Commission to rule upon for**
2 **that fiscal year ending 2004?**

3 A. These are the major differences I am proposing.

4 In summary, I am proposing to split the differences
5 between the Budget and Control Board and Chem Nuclear,
6 make adjustments to labor cost levels based on FTE's and
7 adjust fringes based on the proposed use of a new fringe
8 rate.

9 I would also like to state for the record that in future
10 hearings concerning Chem Nuclear, the Staff may also
11 have to propose changes.

12 **Q. Why is this?**

13 A. There will always be the possibility that some
14 occurrence may take place that can have an effect on
15 costs. Actually, that is the reason the 3.5% annual
16 increase to labor costs was agreed upon by the parties.
17 However, something such as the fringe rate could change
18 and the result would necessitate the need for an
19 adjustment to be proposed. In my mind, even the FTE
20 levels associated with the Plan fall under this same
21 reasoning.

22 **Q. Would you please summarize the Staff's position as it**
23 **applies to fixed costs for 2004?**

24 A. Certainly. Total fixed costs as shown in Staff's Exhibit
25 AA total \$4,905,026. This total is comprised of direct
26 fixed labor, \$379,149, direct fringe costs, \$159,031,
27 total fixed costs other than labor and fringes,
28 \$698,101, indirect fixed labor, \$1,243,064, indirect
29 fringe costs, \$521,386, and total indirect costs other
30 than labor and fringes, \$1,279,295. These direct and

1 indirect costs all qualify for an additional 29%
2 operating margin. In addition to these fixed costs, the
3 Commission has also allowed for the recovery of \$625,000
4 which represents operating rights. Operating rights,
5 which is shown on the exhibit as a fixed cost, are not
6 allowed operating margin treatment.

7 **Q. Are other costs shown on the Staff Exhibit AA?**

8 A. Yes. The Staff is also presenting irregular costs on the
9 exhibit in order to allow the Commission the opportunity
10 to review costs expected in fiscal year 2004 which, for
11 purposes of Staff's report, are neither fixed nor
12 variable. The total amount of irregular costs as
13 detailed in Staff Exhibit AA is \$1,781,870.

14 **Q. Has the Staff presented any exhibits which present in**
15 **detail what costs make up the irregular costs?**

16 A. The Staff has presented two (2) exhibits in which
17 irregular costs are explained and presented in summary
18 form.

19 Staff Exhibit AA-3, Irregular Costs as of the Hearing,
20 presents irregular costs as explained in the Company's
21 application. Staff has made use of another exhibit,
22 Staff Exhibit AA-4, to offer explanations for any
23 proposed adjustments to the irregular costs proposed in
24 the application.

25 Exhibit AA-3 details a total of \$668,029 in large
26 component costs. This total is the result of expected
27 deliveries of large components, such as reactor pressure
28 vessels. At the time of the filing, the Company expected
29 to receive at least three (3) reactor pressure vessels
30 during the fiscal year ending June 2004. Chem Nuclear

1 estimated the cost to handle each of these three (3)
2 vessels. Two of these vessels have now been delivered to
3 the site and the cost associated with them has been
4 basically established. The Big Rock Point vessel,
5 estimated to cost \$62,497, had actual cost of \$70,114.
6 The Staff has proposed an adjustment, #1, to irregular
7 cost for large components totaling an increase of
8 \$7,617. Likewise, the Connecticut Yankee vessel has also
9 arrived at the Barnwell site. The Company had estimated
10 the cost to handle this vessel at \$405,532. Actual cost
11 however was \$352,321. Due to this difference, the Staff
12 is proposing irregular adjustment #2 to decrease large
13 component cost by \$53,211.

14 The third of the three (3) expected vessels, the San
15 Onofre reactor pressure vessel, will not likely be
16 delivered to the site during the fiscal year 2004. In
17 fact, it currently seems that this vessel will never be
18 received by the Company due to environmental questions
19 concerning the delivery. As a result, the Staff is
20 proposing another irregular adjustment to eliminate the
21 entire \$200,000 associated with the delivery of the
22 vessel itself. This Staff irregular adjustment is #3.

23 **Q. Are there other irregular costs that you would care to**
24 **discuss at this time?**

25 **A.** The Company is also requesting costs coverage for a
26 number of projects that will either be completed or
27 begun during the fiscal year ending June 2004. These
28 projects include completion of work on the Western Swale
29 Project, estimated at \$142,765, the construction of
30 Trench #96, estimated by the Company to be \$113,375,

1 continued water management extensions and ramp
2 modifications to Trench #86, estimated to cost an
3 additional \$65,104, and construction costs associated
4 with the new water and sewer installation, estimated to
5 cost \$136,786. These estimated costs total \$458,030.

6 The Staff has made the decision to allow these estimated
7 costs for these projects since they appear to be on-
8 going currently at the site and the estimated costs
9 associated with the projects appears to have been made
10 using the best available information the Company has at
11 this time.

12 However, as a result of the Staff's review, several
13 other items are considered by the Staff to be known and
14 costs associated with them are being proposed by the
15 Staff in order to present these costs as future
16 irregular costs for fiscal year 2004.

17 **Q. Would you please explain these future costs to the**
18 **Commission?**

19 A. Staff is of the opinion that both depreciation and
20 insurance premiums are really fixed costs but neither is
21 shown in the Collaborative Agreement as such. As a
22 result, the Staff is proposing to present both as
23 irregular and to propose the costs Staff has calculated
24 as being the expected cost totals for 2004.

25 The Staff determined depreciation cost for fiscal year
26 2004 by annualizing total depreciable assets as of June
27 30, 2003. Staff's annualized depreciation expense for
28 fiscal 2004 was calculated to be \$86,836. This amount is
29 based on existing depreciable plant at June 30, 2003.

1 This dollar amount could increase, due to changes in the
2 amount of depreciable assets at fiscal year end 2004.

3 The other expense, insurance premiums, is being shown as
4 a direct irregular cost based on current amounts being
5 paid as insurance premiums by the Company. As is the
6 case with depreciation, this amount could change, based
7 on future insurance cost. This market has been
8 increasing steadily since September 11 and the resulting
9 unrest brought about from that event. Hopefully, with
10 better "shopping", the Company may be able to find lower
11 costs for future years. The Staff is of the opinion that
12 the Commission should order the Company to make it a
13 priority to find the most economical insurance package
14 available. The overall cost for insurance has increased
15 some \$300,000 dollars since the Commission first set
16 cost levels for Chem Nuclear.

17 Total other irregular costs, making use of the Staff's
18 proposed increases for depreciation and insurance
19 premiums, increased from the requested amount of
20 \$458,030 to a level equaling \$812,041. Staff Exhibit AA-
21 3 and AA-4 detail these changes.

22 **Q. Has the Company also requested other irregular costs in**
23 **their application as filed with the Commission in this**
24 **current case?**

25 **A.** The Company has requested coverage of costs such as
26 taxes, licensing and permitting fees, disposal taxes,
27 intangible asset amortization, retention compensation
28 payments, disposal site lease, and real estate/personal
29 property taxes. The total cost associated with these
30 items is \$1,949,929. The Staff found as a result of its

1 review of these costs that only the cost for the
2 retention compensation plan was under the jurisdiction
3 of the Commission for the setting of costs. Staff also
4 noted that the \$625,000 intangible asset amortization
5 was shown under fixed costs and should not be a part of
6 irregular costs.

7 As a result, the Staff is proposing to eliminate a total
8 of \$1,860,565 from the total of other allowable
9 irregular costs leaving only \$89,364, which are
10 retention costs.

11 **Q. Is there another irregular cost shown in the application**
12 **by Chem Nuclear?**

13 A. Yes, there is. The Company is requesting coverage for
14 costs associated with the Budget and Control Board,
15 Public Service Commission, and the Atlantic Compact
16 Commission. These costs total \$940,000. It is the
17 Staff's opinion that none of these costs falls under the
18 jurisdiction of the Commission and, consequentially, the
19 Staff is proposing to eliminate such costs. The Staff's
20 proposed adjustment to eliminate the \$940,000 is
21 detailed in Staff Exhibit AA-3 and AA-4.

22 **Q. Can you summarize the Staff's irregular costs as**
23 **detailed in Staff Exhibit AA-3?**

24 A. The Staff eliminated a total of \$2,312,222 dollars in
25 proposed adjustments as detailed in Staff Exhibit AA-4.
26 The results of these proposed adjustments can be seen in
27 Staff's Exhibit AA-3.

28 The Company had originally requested a total of
29 \$4,139,686 in its filing. The Staff proposed to

1 eliminate \$2,312,222 which resulted in a total irregular
2 cost of \$1,781,870.

3 The total irregular cost of \$1,781,870 is comprised of
4 large component costs, estimated at \$422,435, other
5 irregular project costs, estimated at \$1,270,071, and
6 other allowable irregular costs, estimated at \$89,364.

7 **Q. Would you now explain how the Staff calculated the**
8 **variable costs rates shown on your Staff Exhibit AA?**

9 A. In previous cases involving the Company, Staff furnished
10 the Commission with variable cost rates for various
11 types of waste buried at the site. This would include
12 Class A, B, C, and Slit Trench waste. The variable rates
13 used for these four (4) variable components utilized
14 waste per cubic foot to determine overall variable
15 costs. However, at this time I would like to explain
16 Staff's position on the five (5) other variable rates
17 which are being proposed for the first time.

18 As a result of the Collaborative Agreement, the Company
19 is requesting variable labor rates to cover cost
20 associated with vault labor, A, B, C labor, Slit Trench
21 labor, waste acceptance labor, and trench record labor.
22 These five (5) variable rates were agreed to by the
23 parties involved in the collaborative process. The
24 Staff, however, after its review of the Company's books
25 and records, is of the opinion that some modifications
26 should be proposed in the determination of the rates
27 themselves.

28 **Q. What are those modifications?**

1 A. Actually, the Staff's only modification has to do with
2 the timing of the variables used in determining the
3 rates.

4 In my opinion, consistency is most important when using
5 data to determine costs. For the previous cases
6 involving Chem Nuclear, the Staff utilized the past
7 twelve (12) months of data to determine variable rates
8 for the classes of waste received and buried at the
9 site. The agreement and the application filed however,
10 makes use of actual data for a period of eighteen (18)
11 months starting on July 1, 2001 and ending December 31,
12 2002. This time period does not mirror the twelve (12)
13 month period used historically by the Staff and
14 Commission in the determination of rates for waste
15 received and buried.

16 **Q. Does this make a difference in the calculations?**

17 A. To most people, probably not. But, as the expert witness
18 foe the Staff in these proceedings, I feel it does
19 violate an accounting principle which states that data
20 should be consistent.

21 Because of this, I am proposing to make use of the past
22 twelve (12) months to determine the rates for the new
23 variable costs.

24 **Q. Are these variable components different than those used
25 for determining classes of waste?**

26 A. Yes. For classes of waste, the Staff made use of cubic
27 feet of waste received and buried during the past twelve
28 (12) months period. The five (5) new proposed rates,
29 however, make use of number of vaults, number of
30 shipments received, and container totals.

1 **Q. What about the costs associated with these rates?**

2 A. In each case, labor and fringe costs are used. Labor and
3 fringe costs associated with each of the functions
4 considered to be variable in nature are divided by the
5 appropriate components mentioned above in the
6 determination of the rate.

7 Vault labor costs, along with fringes, is divided by the
8 number of vaults received during the previous fiscal
9 year. The rate per vault has been calculated to be
10 \$82.47 per vault. The Staff calculated total cost
11 associated with this variable labor of \$31,999. This
12 total is comprised of labor costs totaling \$22,551 and
13 fringe costs of \$9,448. These costs were calculated
14 using the OEP plan. Labor includes an inflation factor
15 totaling 7.0% and the fringe cost was calculated using a
16 fringe factor of 41.9%. The number of vaults used in the
17 calculation was 388. The vault total was traced back to
18 the number of vaults purchased in fiscal year ending
19 2003.

20 Staff also calculated a variable rate for A, B, and C
21 waste labor rates. In making its calculation, the Staff
22 used labor totaling \$249,490 and fringe cost of
23 \$104,537. Total number of shipments, not including Slit
24 Trench shipments, was used to compute the rate. The
25 number of shipments during the twelve (12) months ending
26 June 30, 2003 was 401. Using the labor and fringe costs
27 along with the number of shipments, the Staff calculated
28 a variable rate for A, B, and C labor totaling \$882.86
29 per shipment. As was the case with vault labor variable
30 rate, the Staff used the OEP plan.

1 Q. Would you continue with your discussion of the variable
2 rates?

3 A. Next the Staff calculated a Slit Trench labor rate.
4 Using the OEP plan, the Staff calculated labor costs
5 totaling \$56,033 along with fringes of \$23,478. The
6 number of shipments of horizontal or Slit Trench
7 shipments was used to calculate the proposed rate. That
8 variable Slit Trench labor rate was calculated to be
9 \$5,289.12 per shipment. As was the case with all of
10 these rates, labor was inflated using a 7.0% inflation
11 rate and fringes were calculated making use of the 41.9%
12 fringe rate. All of the information, with the exception
13 of the number of shipments was traced to the OEP plan.
14 The number of shipments used by the Staff totaled 14 and
15 was agreed to records for fiscal year ending 2003.
16 The waste acceptance labor rate was calculated by the
17 Staff to be \$257.86 per total shipments. Shipments
18 included those for A, B, C, and Slit or Horizontal
19 shipments for the fiscal year 2003. As was noted
20 previously in my testimony, A, B, and C shipments
21 totaled 401 and Slit or Horizontal shipments totaled 14.
22 The total of these shipments, 415, was the factor used
23 by the Staff to calculate the rate for waste acceptance
24 labor. Labor totaled \$75,413 and fringe costs, using a
25 41.9% rate, were calculated to be \$31,598. As was the
26 case with the previous labor totals, Staff's labor
27 calculation included an inflation rate of 7.0%.
28 The final new variable labor rate is the trench record
29 labor rate. The Staff, also using a 7.0% inflation rate,
30 determined a labor total of \$33,484. Fringe costs were

1 calculated using a 41.9% rate and totaled \$14,030. The
2 third factor in calculating this variable rate was
3 number of containers. The Staff found as a result of its
4 review of the books and records that there were 920
5 containers during the fiscal year ending June 30, 2003.
6 Using both labor and fringe costs and dividing that
7 total by the number of containers, the Staff calculated
8 a trench record labor variable rate of \$51.65.

9 **Q. Would you please summarize the five (5) new variable**
10 **rates as computed by the Staff?**

11 A. Yes. The vault labor rate per vault was determined to be
12 \$82.47. A, B, and C waste labor rate was calculated as
13 \$882.86 per shipment, excluding Slit or Horizontal
14 shipments. The slit trench labor rate was determined to
15 be \$5,289.12 per slit or horizontal shipment. Waste
16 acceptance labor rate was computed to be \$257.86 per
17 total shipment. Shipments in this case include A, B, C,
18 and Slit or Horizontal shipments. The final rate is the
19 trench record labor rate. This rate is \$51.65 per
20 container.

21 **Q. Does the Staff wish to propose variable per cubic foot**
22 **rates for class A, B, C, and C Slit Trench waste buried**
23 **at the site for the fiscal year ending June 30, 2004?**

24 A. Yes. As stated previously in my testimony, the company
25 is now expensing trench amortization cost as it occurs
26 and has ended the practice of capitalizing such cost and
27 amortizing it over the life of the trench. Variable per
28 cubic foot rates for classes of waste are now being
29 proposed by the Staff using vault cost only.

1 As of fiscal year ending June 2003 the company had class
2 A waste cost totaling \$810,256 and had buried 35,496
3 cubic feet of class A waste. Using these amounts, the
4 Staff has calculated a class A rate totaling \$22.83 per
5 cubic foot of class A waste received and buried at the
6 site.

7 Using a total cost of \$246,421 and a total amount of
8 cubic feet of class B waste equaling 10,362, the Staff
9 calculated a rate of \$23.78 per cubic foot of class B
10 waste received and buried in the on site trenches.

11 Staff also computed total cost of class C waste buried
12 in regular trenches to equal \$223,271. Cubic feet of
13 waste buried during the same period totaled 9,472. Using
14 these factors, the Staff calculated a rate of \$23.57 per
15 cubic foot of class C waste.

16 The rate for class C slit trench waste was calculated
17 using a total cost of \$73,013 and a level of cubic feet
18 totaling 802. This numbers of cubic feet of waste during
19 the fiscal year ending June 2003 resulted in a rate of
20 \$91.02 per cubic foot of class C slit trench waste.

21 **Q. The Staff's proposed class C slit trench rate of \$91.02**
22 **per cubic foot of waste is \$92.27 less than the actual**
23 **cubic foot rate detailed previously in your testimony**
24 **and \$46.63 less than the rate approved in Order #2003-**
25 **188. Can you explain these differences?**

26 **A.** Yes. The major reason is the company's change in the
27 recognizing of trench cost. In previous cases, vault
28 cost and amortization was used in the calculation of the
29 proposed rate. Due to the number of cubic feet of class
30 C slit trench waste buried annually, this change has a

1 material effect on the rate. Total cubic feet of class C
2 slit trench waste is always far less than that of other
3 types of waste. Cost for slit trenches is normally
4 comparable to that of other trenches. Since each cubic
5 foot had to support this cost for purposes of
6 amortization, the cost associated with trench
7 amortization has to be spread over fewer cubic feet than
8 other types of waste. As a result, a cubic foot rate
9 will be higher if amortization is used in its
10 calculation.

11 The rate proposed by the Staff for fiscal year ending
12 June 2004 is calculated using only vault cost. This
13 change in determining the rate will cause the rate to be
14 far less than rates in previous years.

15 **Q. Does this conclude your direct prefiled testimony?**

16 **A. Yes it does.**